

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 FEA-02 AEC-11 CEA-02

DODE-00 FPC-01 H-03 INT-08 L-03 NSC-07 PM-07 SAM-01

SCI-06 SS-20 STR-08 PA-04 PRS-01 USIA-15 DRC-01 EUR-25

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R 030640Z JUL 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 1334

INFO USLO PEKING

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

UNCLAS SECTION 1 OF 2 HONG KONG 7478

E.O. 11652: N/A

TAGS: EIND, EMIN, ETRD, CH

SUBJECT: INFORMATION ON FOREIGN STEEL INDUSTRIES: PRC

REF: STATE 127209

SUMMARY: REPLIES TO QUESTIONS IN PARAGRAPH 1 OF REFTEL ARE AS FOLLOWS: (A) OUR ESTIMATE OF THE PRC'S RAW STEEL PRODUCTION CAPACITY AS OF BEGINNING CY 1974 IS SOMEWHAT OVER 28 MILLION METRIC TONS (MT). (B) ESTIMATED OUTPUT IN CY 1980 IS ABOUT 50 MILLION MT WITH CAPACITY SOMEWHAT GREATER THAN THAT. (C) ESTIMATED COST OF INCREASING CAPACITY TO 1980 LEVEL IS AT LEAST US\$100-140 MILLION PER MILLION TONS FOR PLANT PURCHASED FROM ABROAD BUT SIGNIFICANTLY LESS FOR EQUIPMENT PRODUCED IN THE PRC. (D) PRC

DOMESTIC DEMAND FOR STEEL IN 1980 IS ESTIMATED AT OVER 50 MILLION MT WITH 2-3 TO 5 MILLION MT BEING IMPORTED. (E) ALTHOUGH UNCLASSIFIED

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THERE WILL BE NO REAL "SURPLUS" AVAILABLE, WE ESTIMATE THE PRC

WILL PROBABLY EXPORT 125-150 THOUSAND MT, LARGELY, AS IN THE PAST, TO HONG KONG, SOUTHEAST ASIA AND AFRICA. END SUMMARY

1. THE FOLLOWING REPLIES TO THE SPECIFIC QUESTIONS IN PARAGRAPH 1 REFTEL:

(A) THE LATEST YEAR FOR WHICH A QUANTITATIVE FIGURE WAS GIVEN BY THE PRC ON CHINA'S STEEL OUTPUT WAS 1972. THEN IT WAS CLAIMED THAT STEEL PRODUCTION HAD GONE UP 9.5 PERCENT OVER 1971 TO REACH 23 MILLION METRIC TONS (NCNA, PEKING, JANUARY 3, 1973). NO QUANTITATIVE FIGURE FOR 1973 WAS GIVEN; IT WAS MERELY STATED THAT THE INCREASE IN STEEL OUTPUT OVER 1972 WAS "CONSIDERABLE" (NCNA, PEKING, DECEMBER 31, 1973). THE HONG KONG TA KUNG PAO OF FEBRUARY 9, 1974 CITED AN ESTIMATE MADE ON JANUARY 22, 1974, BY "AN INTERNATIONAL IRON AND STEEL ORGANIZATION" THAT CHINA'S 1973 OUTPUT WAS 24 MILLION METRIC TONS. ELSEWHERE, THE JAPAN IRON AND STEEL FEDERATION ESTIMATED IT TO BE 26 MILLION METRIC TONS (METAL BULLETIN, JANUARY 24, 1974). ASSUMING AN ANNUAL INCREASE OF ABOUT 12 PERCENT -- WHICH WOULD BE FAIRLY CONSISTENT WITH RECORDS OF THESE FEW YEARS -- THE PRC'S STEEL PRODUCTION IN CY 1974 WILL APPROACH 28 MILLION METRIC TONS. PRODUCTION CAPACITY AS OF BEGINNING OF THE YEAR WAS PROBABLY GREATER THAN THAT SINCE, IN GENERAL, CHINESE PLANTS SELDOM OPERATE TO MAXIMUM CAPACITY.

(B) CY 1980 WILL BE THE LAST YEAR OF THE NEXT (FIFTH) FIVE-YEAR PLAN. THAT PERIOD IS EXPECTED TO WITNESS SUBSTANTIALLY INCREASED ECONOMIC ACTIVITIES SINCE ALL THE RECENT PLANT PURCHASES FROM ABROAD ARE SCHEDULED FOR DELIVERY DURING THAT FIVE-YEAR PERIOD. THE PRC IS LIKELY TO CONTINUE TO ACCORD THE STEEL INDUSTRY TOP PRIORITY IN DEVELOPMENT. IN VIEW OF PEKING'S STANDARD PRACTICE OF NOT MAKING ECONOMIC DATA PUBLIC, INCLUDING DATA ON FIVE-YEAR PLANS, PRC'S STEEL PRODUCTION CAPACITY IN CY 1980 CAN ONLY BE VERY ROUGHLY ESTIMATED. BESIDES THE OBSERVATIONS SUB-PARAGRAPH (A) ABOVE, THE ONLY OTHER EASILY AVAILABLE YARDSTICK IS THE DEVELOPMENT TREND OVER THE PAST FEW YEARS.

CHINA'S STEEL OUTPUT INCREASED FROM 18 MILLION METRIC TONS IN 1970 TO ABOUT 28 MILLION METRIC TONS IN 1974, AN ANNUAL INCREMENTAL RATE OF ABOUT 12 PERCENT. IF THIS UNCLASSIFIED

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GROWTH RATE IS ASSUMED FOR THE YEARS UP TO 1980 THEN BY CY 1980 THE ESTIMATED PRODUCTION CAPACITY WOULD BE ROUGHLY 54 MILLION METRIC TONS.

IN THIS CONNECTION, CONGEN WOULD, HOWEVER, POINT OUT THAT THE ESTIMATE IS OF THE ROUGHEST ORDER OF MAGNITUDE, THAT THE 12 PERCENT ANNUAL GROWTH RATE EXCEEDS THE LONG-TERM GROWTH RATE OF PRC'S NATIONAL ECONOMY (SAY, 4 PERCENT) AND OF PRC'S INDUSTRY (SAY, 8 PERCENT), AND THAT TO ATTAIN

THIS GROWTH MUCH STILL DEPENDS ON THE REGIME'S ABILITY TO SURMOUNT SUCH DIFFICULTIES AS LIMITED IRON ORE AND SCRAP AVAILABILITIES AND-COAL PRODUCTION PROBLEMS.

WE WOULD SUGGEST THAT THE LIMITING FACTORS ARE AS LIKELY TO LIE IN THESE AREAS AS IN THE PRC'S ABILITY TO INCREASE IRON AND STEEL PRODUCTION CAPACITY. THE PRC HAS IMPORTED SCRAP FOR A NUMBER OF YEARS AND CONTRACTED TO IMPORT IRON ORE FROM AUSTRALIA LAST YEAR. IT ALSO CONTRACTED FOR OVER US\$50 MILLION WORTH OF MINING EQUIPMENT, SOME US\$30 MILLION OF WHICH IS FOR COAL MINING. WHILE THESE FOREIGN PURCHASES WILL HELP OVERCOME SOME OF THE PROBLEMS IN EXPANDING PRODUCTION, IN THE CONTEXT OF REPLYING TO THE REFTEL, WE READ THEM MORE AS INDICATIONS OF THE SERIOUSNESS OF THOSE PROBLEMS: THEY CANNOT BE OVERCOME WITHOUT LARGE INFUSIONS OF FOREIGN EQUIPMENT AND TECHNOLOGY.

IN LIGHT OF THESE CONSIDERATIONS WE PREFER TO USE AN ANNUAL GROWTH OF 10 PERCENT, WHICH IS HIGHER THAN THE LONG-TERM GROWTH RATE OF INDUSTRIAL OUTPUT BUT BELOW THAT OF STEEL OUTPUT IN THE PAST FEW YEARS. ON THAT BASIS WE ESTIMATE CY 1980 OUTPUT AT ABOUT 50 MILLION MT. CPACITY WILL PROBABLY BE SOMEWHAT GREATER THAN THAT INASMUCH AS PRC PLANTS SELDOM OPERATE AT FULL CAPACITY AND AS RAW MATERIAL INPUTS ARE LIKELY TO BE THE MORE LIMITING FACTORS. (C) ACCORDING TO THE "US CHINA BUSINESS REVIEW," JAN-FEB 1974, AMONG THE PLANT SALES TO CHINA UNDER NEGOTIATION IN JANUARY 1974 WERE A STEEL COMPLEX EACH FROM THE GERMAN FIRMS MANNESMANN,

A. G. THYSSEN AND EMAG SCHLOEMANN-SIEMAG. BOTH PLANS ENVISAGE AN ANNUAL PRODUCTION CAPACITY OF 4 MILLION TONS EACH. THE PRICES ASKED FOR WERE US\$408 MILLION FOR THE FORMER AND US\$555 MILLION FOR THE LATTER, OR AVERAGING US\$102 TO US\$139 MILLION PER MILLION TONS OF UNCLASSIFIED

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OUTPUT CAPACITY. IF IT IS ASSUMED THAT THE PRC EFFECTS A PRODUCTION INCREASE FROM 28 MILLION MT IN 1974 TO 50 MILLION MT IN 1980, OR A TOTAL INCREASE OF 22 MILLION MT, THEN -- BASED ON THE COST OF FOREIGN PLANT AND EQUIPMENT -- THE TOTAL COST INVOLVED WOULD BE FROM US\$100 MILLION X 22 EQUALS US\$2,200 MILLION TO US\$140 MILLION X 22 EQUALS US\$3,080 MILLION. MORE CROSS

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INFO OCT-01 EA-11 ISO-00 EUR-25 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 AEC-11 CEA-02

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SCI-06 SS-20 STR-08 FEA-02 PA-04 PRS-01 USIA-15 DRC-01

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HOWEVER, CHINA WILL PROBABLY PERSIST IN "WALKING ON TWO LEGS" IN EFFECTING THE PROJECTED PRODUCTION CAPACITY INCREASE. THIS MEANS THAT SHE WILL VERY LIKELY MAKE SOME PLANT PURCHASES FROM ABROAD AND AT THE SAME TIME SET UP NEW PLANTS AND EQUIPMENT ON HER OWN. THAT THIS IS ENTIRELY FEASIBLE AS CAN BE SEEN FROM THE INTRODUCTION OF THE TOP-BLOWN PURE OXYGEN CONVERTER (THE AUSTRALIAN L/D PROCESS) IN PRC STEEL MAKING. SINCE 1965 CHINA HAS TURNED OUT MANY SUCH CONVERTERS ON HER OWN WHICH HAVE BEEN INSTALLED IN DIFFERENT STEEL PLANTS AROUND THE COUNTRY. IN ALL PROBABILITY IN THE COMING YEARS SHE WILL CONTINUE TO BUILD MORE SUCH UNCLASSIFIED

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CONVERTERS, THUS ADDING TO HER STEEL PRODUCTION CAPACITY.

THE EXACT COST OF MAKING SUCH CONVERTERS IN CHINA IS NOT KNOWN BUT IT MAY BE ASSUMED TO BE FAR LESS THAN PROCURING THEM FROM ABROAD. TO THE EXTENT THAT CAPACITY IS IN THIS WAY THE TOTAL COST INVOLVED WOULD BE GREATLY REDUCED BELOW THE FIGURES CITED ABOVE.

(D) IN RECENT YEARS CHINA'S DOMESTIC DEMAND FOR STEEL HAS ALWAYS EXCEEDED HER OWN STEEL OUTPUT. ESTIMATED PRC IMPORTS OF IRON AND STEEL PRODUCTS AMOUNTED TO US\$470 MILLION IN 1971, US\$485 MILLION IN 1972 AND US\$833. MILLION IN 1973, AVERAGING SOME 2 TO 3 MILLION METRIC TONS A YEAR. IT MAY BE ASSUMED THAT MORE OR LESS THE SAME SITUATION WILL PREVAIL IN 1980. HER OWN STEEL OUTPUT WILL FULLY MEET HER DOMESTIC DEMAND AND PEKING WILL CONTINUE TO IMPORT STEEL PRODUCTS FROM ABROAD, PARTICULARLY SPECIALTY STEELS. WE THINK IMPORTS COULD LIE IN THE 203 TO 5 MILLION MT RANGE THEN.

(E) IN PAST FEW YEARS CHINA HAS, ON THE ONE HAND, IMPORTED IRON AND STEEL PRODUCTS AND, ON THE OTHER HAND, EXPORTED HER OWN IRON AND STEEL PRODUCTS TO LOCALITIES LIKE HONG KONG, SOUTHEAST ASIAN COUNTRIES AND CERTAIN AFRICAN STATES. EXPORTS TO HONG KONG AMOUNTED TO 73,430 METRIC TONS (US\$11.3 MILLION) IN 1971, 108,353 METRIC TONS (US\$13.7 MILLION) IN 1972, AND 117,557 METRIC TONS (US\$22.9 MILLION) IN 1973. THESE EXPORTS AND THOSE TO OTHER STATES ARE PARTLY FOR COMMERCIAL PURPOSES AND PARTLY FOR POLITICAL OBJECTIVES SUCH AS THOSE CONNECTED WITH AID PROJECTS. THEY DO NOT REPRESENT THE SHIPPING OR DUMPING OF A SURPLUS ABOARD. IT IS LIKELY THAT THIS TREND WILL CONTINUE IN 1980. AS WE SEE IT, THERE IS NO LIKELIHOOD IN THE FORESEEABLE FUTURE THAT THE PRC WILL BECOME A SERIOUS CONTENDER AMONG THE WORLD NATIONS VYING FOR STEEL EXPORTS.

2. RE PARAGRAPH 3 OF REFTTEL IN VIEW OF THE STANDARD CHINESE PRACTICE (MENTIONED IN PARAGRAPHS 1A AND B ABOVE) OF NOT MAKING ECONOMIC DATA PUBLIC, CONGEN IS UNABLE TO PROVIDE REFERENCES TO ANY RECENT PRC REPORTS COVERING THE ABOVE.

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